

INTERNATIONAL CITY MANAGERS' ASSOCIATION

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THE COSTS OF EMPLOYEE FRINGE BENEFITS

What are the more common types of fringe benefits for city employees? How can their costs be measured? What is the place of fringe benefits in the municipal pay plan?

Recent trends in municipal personnel administration point to greater recognition of city employee unions, security of tenure, increasing wages and salaries, more weight given to seniority in many types of personnel actions, and increasing emphasis upon employee fringe benefits. It is the last trend, fringe benefits, which is the subject of this report.

What are fringe benefits? They can include such intangibles as climate, transportation, recreation, recreation, and housing. For this report, however, fringe benefits will be defined and limited to the direct and indirect remuneration beyond wages and salaries received by municipal employees, where the city pays all or part of the cost.

The purposes of this report are to show the types of fringe benefits that may be considered in developing or revising personnel rules and the municipal pay plan and how the cost of fringe benefits can be measured. The analysis and measurement of fringe benefits will show the deficiencies in present benefits, if any, the costs of the benefits in use and contemplated, and their application to wage and salary administration. Much of this report is based on cost studies of fringe benefits made within the last 20 months in Phoenix, Ariz.; Santa Monica, Calif.; Oak Park and Peoria, Ill.; and Bangor, Me.

Types of Fringe Benefits

The fringe benefits offered by almost every city government to its employees include vacation or annual leave, sick leave, holidays, pension plans, and workmen's compensation. Other types of benefits less commonly offered include various types of leaves of absence, rest periods and coffee breaks, group insurance, uniform allowances for policemen, firemen, and some public works employees, and over-time pay. Still other fringe benefits that are rare among municipal governments are separation pay for employees who are laid off, longevity pay plans to provide "super" increases for long-service employees, cafeterias or lunch counters operated by the city government, and suggestion systems with cash awards for city employees.

Vacation or Annual Leave. This is a specified amount of time away from work, with pay, granted to an employee each year.

Sick Leave. This is time off with pay granted an employee each year for absence from work due to personal illness or physical incapacity. Many cities extend sick leave to include illness or death of a member of the employee's immediate family.

Holidays. Certain specified days off during the year are granted to employees as paid time away from work.

Other Leave. This includes all other kinds of time off from work with or without pay. The most common types probably are leaves for military reserve and national guard duty, jury duty and court witness calls, time off for voting, rest periods, and coffee breaks. It may also include in a few jurisdictions leave of absence, with or without pay, for training to enhance the worth and capacity of the employee for his job and time off for Christmas shopping or other personal reasons of the employee. Many of these types of time off from work are granted by custom to employees but are not recognized in city government policies as expressed in personnel rules and regulations.

Pension Plans. One of the most common types of fringe benefits, the pension plan, is a means by which both employer and employee contribute regularly to a fund, usually actuarially sound, to provide an income for the worker when he reaches the age of retirement. The great majority of cities offer some types of state or locally administered retirement plan for their employees. In addition, many cities now are participating in federal social security (Old Age and Survivors Insurance) on a joint contributory basis. These plans are not considered fringe benefits unless the city government pays all or part of the cost.

Workmen's Compensation. This type of benefit is required by law for the majority of public and private employers in all 48 states and is intended to cover direct and indirect costs resulting from accidents incurred on the job. Workmen's compensation is almost likely to be a fringe benefit from the city government point of view when the city pays an employee wages or salary in addition to the award he receives under the state workmen's compensation law. Some cities, for example, pay the difference between the compensation award and the employee's regular salary.

Group Insurance. Hospital and surgical insurance are by far the most common types for municipal government employees. In many cities this coverage is extended under Blue Cross and Blue Shield plans. Other kinds of group insurance in a small number of cities include medical and health services and life insurance.

Uniform Allowances. This most commonly refers to the provision of uniforms for policemen and firemen either through cash allowances or actual provision of the uniforms. Uniforms sometimes are provided for refuse collection crews and other public works employees.

Overtime Pay. This is extra pay granted to city employees who put in time over and above their regularly scheduled day or work week. It is usually thought of as premium pay at time and one-half of the regular rate but also may include compensatory time off or straight-time pay.

Recent Trends in Fringe Benefits

Stated succinctly, the trends in many cities are that existing fringe benefits are being enlarged and new fringe benefits are being added. Ample evidence of the importance of fringe benefits in public and private employment can be found in the following sources:

1. Fringe Benefits--1953. Chamber of Commerce of the United States, Washington 6, D. C. 1954. \$1. This report shows the types of fringe benefits offered and the costs of those benefits for 940 reporting companies in manufacturing, public utilities, wholesale and retail trade, hotels, banks, insurance companies, and other enterprises.

2. Fringe Benefits for Salaried Employees in Government and Industry. By Edith B. Kidney. Civil Service Assembly, 1313 East 60 Street, Chicago 37. 1954. \$2. This is an exhaustive survey of the fringe benefits provided by local, state, and federal governments as compared with the benefits offered by private industry.

3. The Municipal Year Book. International City Managers' Association, 1313 East 60 Street, Chicago 37. \$10. Specific information in various editions is as follows: 1955 edition--Saturday work schedules, overtime pay, vacation, sick leave, hospital and surgical insurance, and retirement benefits. 1953 edition--policies on paying policemen for off-duty time spent in court. 1952 edition--city employee credit unions; for policemen and firemen only, data on overtime pay practices and the number of days allowed for vacation and sick leave. 1951 edition--for policemen and firemen only, city policies for furnishing uniforms or providing clothing allowances.

The Cost of Fringe Benefits

The trends in fringe benefits leave no doubt that they are an increasing part of the cost of personal services for any municipal government thus reflecting a trend in all types of public and private employment. The Chamber of Commerce study referred to above estimates that fringe benefits represent 19.2 per cent of the payroll for private employers. The Michigan Municipal League, in a study made in 1953, reports that the total cost of fringe benefits ranges from 12 to 18 per cent of the payroll for the four job classifications of water meter reader, laborer, policeman, and fireman. In 1947 Marquette, Michigan, figured that the average city employee earned \$2,841 per year and received additional "job dividends" worth \$450 for pensions, vacations, holidays, and sick leave. As shown in MIS Report No. 87, Marquette presented this information in an attractive brochure used in the recruitment of city employees.

At least five cities have made comprehensive studies of fringe-benefit costs within the past two years as an aid in recruitment, as a tool for bargaining with union representatives on wage levels, as a guide to budget preparation, and as an integral part of wage and salary administration. The work done by these five cities is described below.

Phoenix, Ariz. This city began work on a detailed analysis of fringe benefits for city employees early in 1954. The benefits studies were divided into two groups: (1) payments for time not worked, including vacation, sick leave, holidays, paid national guard leave, and absences for jury and court witness duty, and (2) employee welfare costs, including workmen's compensation, retirement and pension systems, and safety awards for the division of transportation. Three other benefits--overtime work, holiday work, and shift differentials--were not included on the grounds that these factors should be considered as base pay for those employees receiving them, since the city has to pay premium wages for these variations from normal working hours.

The original computation divided 1,580 employees into six occupational groups: police, fire, transportation, library, and two groups cutting across departmental lines: clerical, fiscal, and administrative; and labor, custodial, and maintenance. For the last four groups fringe benefits were calculated in two different ways. First, computations were made for the four occupational groups; second, the figures were then computed for all four groups as "general employees" divided into three groups on the basis of the hours in the work week: 40 hours, 44 hours, and 48 hours.

Weighted averages were used to derive an average hourly rate for each occupational group which in turn was used to derive average daily, monthly, and annual

salaries. In making the computation workmen's compensation and the general retirement system were determined by a fixed percentage of the annual payroll based on the actual cost to the city government. Values for the police and fire pension systems and transportation safety awards were based on the amount of money actually contributed by the city government. The time-off-from-work benefits (vacation, sick leave, holidays, national guard leave, and jury and court witness duty) were based on the number of days received for the benefits in each occupational group multiplied by the average daily rate to determine to monetary value of the benefit.

The various tabulations revealed that employees on the 40-hour work week received greater benefits proportionately than those on the 44 and 48-hour weeks. The study also showed that policemen and firemen receive considerably higher benefits than other employees principally because of liberal pension plan provisions. The detailed tabulations for fringe benefits were condensed and made a part of the city manager's annual budget message for 1954-55. Early in 1955 the figures were recomputed and used as a part of the city manager's budget message for the 1955-56 fiscal year as follows:

"Fringe benefits to employees contribute a substantial amount of the operating cost of the city. Most of these are prescribed by state statutes or by vote of the people. They include 15 days annual vacation with pay, up to 15 days annual sick leave with pay, paid legal holidays, workmen's compensation (industrial insurance), paid jury and court witness duty, paid National Guard and reserve leave, and transportation system cash safety awards. The cost of each of these benefits, and the total cost of all fringe benefits, expressed as a percent of payroll, are shown in the following table:

1955-56 FRINGE BENEFIT COSTS IN PHOENIX
(Shown as a percentage of average annual salary)

<u>Type of Benefits</u>	<u>Police</u>	<u>Fire</u>	<u>General Employees</u>
15 Days Vacation	4.79%	4.79%	5.41%
15 Days Sick Leave	4.79	4.79	5.41
Legal Holidays	1.28	1.37	3.47
Workmen's Compensation	1.87	1.87	1.87
Retirement	32.50	16.62*	8.47**
Other	<u>0.13</u>	<u>0.07</u>	<u>0.10</u>
Totals	45.36%	29.51%	24.73%

*Includes estimated contribution of \$76,000 or 6.42% from State of Arizona Insurance premiums. This is actually a tax paid to the State by City property owners on fire insurance policies and remitted to this fund in compliance with the law.

**City's portion of "Social Security" included."

Santa Monica, Calif. This study, made in May, 1954, was based on computations for workmen's compensation, retirement, rest periods and coffee breaks, vacation, sick leave, and holidays. Three employee groups totaling 924 employees were established for police and fire, transportation, and all others. Workmen's compensation included the municipal cost for insurance premiums plus supplementary salary payments to employees based on the average paid each employee over a five-year period. Retirement costs were based on premiums paid by the city to the state-administered fund. Rest periods and coffee breaks were estimated at 20 minutes per day per employee.

Vacation time was averaged for those employees receiving two weeks and those receiving three weeks after 10 years of service. Sick leave was computed on the basis of the average amount of time taken by each employee over a five-year period. Each of the three employee groups received a different number of days off for holidays, and this benefit therefore was computed separately for each group. The final computation showed that the benefits ranged for each of the three employee groups as a percentage of total base pay from 19.57 per cent to 21.64 per cent.

Oak Park, Ill. This survey, made in 1955, used the fringe benefit costs computed for individual employees and was made according to four groups of employees because of differences in work weeks and legally required benefits. The four employee groups were (1) clerical, fiscal, and administrative (2) labor, custodial, and maintenance (3) police and (4) fire. Certain employees such as the village manager, department heads, elected officials, some part-time employees, and employees of the playground, law, and library departments were not included. After establishing the four employee groups and making necessary exclusions, the 317 out of a total of 385 employees were listed according to the groups to which they belonged.

Fringe benefits were then computed on an individual basis so that actual costs were derived. The types of benefits computed were (1) time off from work factors: vacations, holidays, and other (coffee breaks, funerals, voting, jury duty, and military training leaves) and (2) cost factors not involving time off: pensions and miscellaneous costs (uniform allowances, Blue Cross, credit union, and heroism awards).

Three benefits considered for use in the study but omitted for various reasons were sick leave, overtime pay, and in-service training. Sick leave was omitted as an exact cost to the city because of the lack of complete records and the low incidence of sick leave used. Potential sick leave, a computation of total cumulative allowances, was figured for information purposes (see table on next page). Overtime or in-service training were omitted as borderline types of fringe benefits.

These benefits are expressed in a series of tables showing fringe benefits for each employee group and for all groups combined as related to total annual payroll, average employee salaries, and hours of work. The table on the following page is an example showing the cost or value of fringe benefits and their ratio to annual payroll.

The Oak Park study showed, for example, that the average clerical, fiscal and administrative employee's base salary of \$4,310 a year was supplemented by vacation worth \$186; holidays, \$159; other time off, \$296; pension contribution by the village, \$499; and miscellaneous costs to the village, \$18, thus raising his total annual salary to \$4,470. The percentage breakdown by fringe benefits for all the employees surveyed was vacation, 5.6 per cent; holidays, 1.6 per cent; other time off, 4.7 per cent; pensions, 12.9 per cent; and miscellaneous costs, 1.0 per cent--a total of 25.8 per cent.

Peoria, Ill. This study was made in 1954 specifically as an aid in setting wages for city employees who are members of unions with counterparts in private employment. The city's policy is to pay wages to organized employees according to the prevailing rates negotiated in private employment with such wages subject to an adjustment for the "wage supplement" or fringe benefits offered to city employees.

FRINGE BENEFITS BY EMPLOYEE GROUPS, 1955, IN OAK PARK, ILLINOIS

	Clerical, Fiscal and Administrative		Labor, Custodial and Maintenance		Fire Department		Police Department		Totals*	
	Cost or Value	% of Pay- roll	Cost or Value	% of Pay- roll	Cost or Value	% of Pay- roll	Cost or Value	% of Pay- roll	Cost or Value	% of Pay- roll
Annual payroll	\$245,686	100.0%	\$498,899	100.0%	\$356,752	100.0%	\$302,944	100.0%	\$1,404,281	100.0%
Time off factors										
Vacations	\$ 10,626	4.4%	\$ 19,992	4.0%	\$ 26,933	7.6%	\$ 20,777	6.9%	\$ 78,328	5.6%
Holidays	9,118	3.8	12,833	2.6	0	0.0	0	0.0	21,951	1.6
Other time off**	16,878	6.9	29,650	5.9	0	0.0	19,851	6.5	66,379	4.7
Cost Factors										
Pension costs	28,475	11.7	57,822	11.6	45,343	12.7	49,531	16.3	181,171	12.9
Miscellaneous***	1,034	0.1	2,213	0.5	4,680	1.3	5,943	2.0	13,870	1.0
Subtotal	\$ 66,131	26.9%	\$122,510	24.6%	\$ 76,956	21.6%	\$ 96,102	31.7%	\$ 361,699	25.8%
Potential sick leave	42,256	17.2	82,186	16.5	73,731	20.7	75,707	25.0	273,880	19.5
Total	\$108,387	44.1%	\$204,696	41.1%	\$150,687	42.3%	\$171,809	56.7%	\$ 635,579	45.3%

*Covers 317 employees.

**Includes coffee breaks, Golf Day or Ladies Day, Christmas shopping, attendance at funerals, voting, in-service training, and other excused absences for jury duty, military training, etc.

***Includes uniform allowances, heroism awards, provision for Blue Cross, and credit unions.

Four basic fringe benefits were singled out to be expressed as a per cent of the payroll: municipal retirement and disability, 8.10 per cent; two weeks vacation, 3.84 per cent; six paid holidays, 2.31 per cent; and average actual use of sick leave among city employees, 2.50 per cent. The four benefits total 16.65 per cent of the payroll.

After determining the average fringe benefits for city employees it was necessary to classify the work done by union members in order to ascertain what outside rates should be used for comparison with city wage rates. This classification was made not only on the basis of job content but also gave weight to the construction and maintenance nature of various jobs.

For example, the work done by construction laborers, painters, and teamsters, for the city was found to be comparable to that done by contractors on the outside while the work done by electricians was found to be of a maintenance nature and comparable to that done by electricians for the local light company. Since contractors pay very little in fringe benefits, the first three types of workers would receive a city wage considerably less than the outside rate while the electricians, who receive a number of fringe benefits from the light company, would receive a city rate nearly the same as the outside rate.

The final step was to determine the actual cash rate that should be paid, based on job classification, for the city employees affected. This can be shown by the following example: The city of Peoria employs a number of construction laborers in the street department. The outside cash wage in negotiated union contracts is \$2.375 per hour, and the only supplement they receive is federal social security to which employers contribute 2 per cent of the payroll. Thus the outside total wage, cash plus supplements, is \$2.42 per hour. The city has a cash wage for these employees of X, or the unknown, and the supplements amount to 16.65 per cent of the cash wage for the four benefits mentioned above. Solving the equation for X the city arrives at a cash wage of \$2.075 per hour for construction laborers.

Two fringe benefits, workmen's compensation and unemployment compensation, were specifically excluded from consideration. Since all employers in Illinois, including cities, must provide workmen's compensation this fringe benefit was not counted either for municipal or for private employment. Private employers, however, pay 2.7 per cent of this payroll for unemployment insurance. This is not a city government cost since its employees are not covered. The city administration contends, however, that the lack of unemployment insurance should not be considered a drawback of municipal employment since the city can offer far more than private employers in good working conditions, steady employment, and tenure.

Bangor, Me. A fringe benefit study covering 300 permanent employees was made by the city manager in May, 1955, for two specific purposes: (1) to determine the present practices and costs in the city for fringe benefits, and (2) to determine the needs of municipal employees in the area of fringe benefits. The study included vacation, sick leave, workmen's compensation, holidays, pension plans, survivors benefits, federal social security, and group life insurance. The study was limited to salaries and wages totaling \$983,783, for personal services for one year in municipal departments other than schools, water and library. Of this amount, fringe benefits were estimated to cost \$161,000, or 16.36 per cent of the total payroll. The actual cost of sick leave for city employees was figured at \$27,000, but the accrued sick leave was calculated as a potential liability against the city of approximately \$183,000.

As a result of the information gathered it was recommended that the city adopt group life insurance if a state administered plan is made available to cities, study the relative merits of federal social security versus present retirement plans, and study the contributory survivors benefit plan for employees presently under the city's noncontributory pension plan.

Shortly after the Bangor study was made, the Maine legislature passed an act providing a group life insurance plan for all state and local employees who are members of the state retirement system.

Conclusions

1. The uses for fringe benefit studies are to ascertain the gaps in fringe benefits, if any; to compare city government wages and salaries with those offered in outside public and private employment; and to provide a systematic method of arriving at comparable wages for organized city employees where the city has a policy of paying prevailing rates as negotiated by unions in private employment.

2. The most common fringe benefits are vacation, sick leave, holidays, pensions, and workmen's compensation.

3. In most cities the fringe benefits for firemen and policemen should be computed separately from those for other employees. Fire and police departments customarily have longer work weeks and different provisions for vacations and holidays from those applicable to other city departments.

4. Costs can be computed on an individual or group basis for city employees. Individual computations take more time but are more accurate for measuring fringe benefits especially in smaller cities. In large cities the number of employees involved will tend to average out the differences in fringe benefits.

5. In computing fringe benefits the ones of minor cost should be eliminated as well as those that are on the border line between fringe benefits and actual parts of the employee salaries. Examples of minor cost benefits include in-service training, time off for Christmas shopping, employee suggestion system awards, and coffee breaks. The border line fringe benefits are overtime pay, leaves of absence without pay, and shift differentials.

6. The accrued sick leave of all city employees can represent a tremendous potential liability for the city government. It is desirable, however, in figuring sick leave to limit the computation to the amount of time actually taken by city employees. Where accurate sick leave records are maintained this computation can be done on a five-year average for employee groups.

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